

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
February 14, 2003

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell (by telephone)
Connie R. Thurman
Nancy Turner

Others Present

Forest Bowman, Attorney-at-Law

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(6).

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell (by telephone)
Connie R. Thurman
Nancy Turner

Others Present

Fred Biesecker, Ice Miller
Mary Beth Braitman, Ice Miller
William Crawford, UAW/AFT Benefits Representative Local 9212
Stephanie Rhinesmith, Public Finance Office
Eric Swank, Ice Miller
Doug Todd, McCready & Keene, Inc.

PERF Staff

Craig Hartzler, Executive Director
Caroline Drum Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Joseph Duncan, PERF Investment Officer
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Legal Counsel
Bruce Kimery, PERF Chief Benefits Officer
Patrick Lane, PERF Communications Director
Tim Legesse, PERF Investments Officer
Doug Mills, PERF Chief Financial Officer
Tom Parker, 1977 Fund Director
Lynda Duncan, Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING.

A. Agenda of February 14, 2003

B. Minutes:

- January 10, 2003 Board of Trustees Meeting
- December 16, 2002 1977 Fund Advisory Committee Meeting
- December 13, 2002 Investments Committee Meeting

C. Year-to-Date Expenses Update.

1. OPENING REMARKS. Mr. Birge, on behalf of the Board of Trustees, welcomed Dr. Craig Hartzer, Executive Director PERF, to the meeting.

2. RESOLUTION. The Board approved Resolution 03/01 of the Board of Trustees, recognizing Fred R. Biesecker for his service in the Indiana Public Employees' Retirement Fund Board of Trustees.

3. APPROVAL OF MINUTES.

- a. Amendment of Minutes of November 8, 2002 Board Meeting. Item 1 Global Custodian. Mr. Gohmann recommended clarification of the minutes of the November 8, 2002 Board of Trustees to reflect that after the global custody RFP presentations, the Board had awarded the contract to the joint bid from National City as Custodian and JP Morgan Chase as sub-Custodian. The MOTION was amended as follows:

MOTION duly made and carried to amend the minutes of the November 8, 2002 Board of Trustees Meeting to record this clarification.

Proposed by: Connie Thurman
Seconded by: Richard Doermer
Votes: 5 for, 0 against, 0 abstentions.

- b. Ratification of Contract.

MOTION duly made and carried to ratify the Global Custody contract dated January 28, 2003, between the Fund and National City Bank as Custodian and JP Morgan Chase as sub-custodian.

Proposed by: Garland Ferrell
Seconded by: Connie Thurman
Votes: 5 for, 0 against, 0 abstentions

- c. Approval of Minutes February 14, 2003 Board Meeting. The draft minutes were amended to reflect a typographical error on Page 5, SB 141; change “provided” to read “proved”.

MOTION duly made and carried to approve the Minutes of the Board Meeting held on February 14, 2003

Proposed by: Richard Doermer
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions.

4. ADMINISTRATION.

- a. Staff Appointments. Mr. Birge recommended that the Board of Trustees appoint Mr. Bruce Kimery as the Deputy Executive Director of PERF. Salaries for the Executive Director and Deputy Executive Director had been agreed at \$115,000 per annum and \$105,000 per annum respectively.

MOTION duly made and carried to approve the above-mentioned recommendations.

Proposed by: Garland Ferrell
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions.

- b. SIRIS Update. Ms. Clift advised that PERF continued to work towards closure of the SIRIS project. Funds were released as services were completed; however, Ms. Clift noted that there had been no additional deliverables to warrant release of funds.

- Changes for work outside the scope of the original project that had been agreed via signed Change Controls (12 – 14 throughout the project) were being validated to verify that the work had been performed and functions were working correctly.
- Mr. Hartzer and Mr. Kimery continue to work with the Executive Staffs of TRF and Covansys to ensure that the work on the project is completed satisfactorily. Ms. Clift hoped that this issue would be closed by April 1, but noted that numerous items remained to be resolved.
- Discussion followed on legal recourses should this become necessary. Mr. Kimery noted that they had identified those elements in the system that were not performing as requested and this was being addressed with the Vice President for Public Sector Operations of Convansys. He noted the need to bring this issue to a closure and get the basic system running and then to decide on the way ahead for provision of system support.

5. LEGISLATIVE UPDATE. Mr. Gohmann provided a bill status report for items being discussed in the current legislative session that affected public pensions and noted that the legislative process was approaching the halfway point. Most House Bills affecting PERF had been routed to the Ways and Means Committee.

6. POLICE AND FIRE. Mr. Parker provided highlights of items discussed at the 1977 Fund Advisory Committee meeting held on January 17, 2003:

- The Governor had approved the reappointment of current Committee members and the appointment of new member Mr. Willie Milsap of Michigan City.
- Pension Relief Distributions. Mr. Todd, PERF's Actuary, had presented various scenarios involving reductions in appropriations or withdrawals from the Pension Relief Trust Funds that would affect the benefit expenses of the public funds and its potential to pay benefits in the future.
- Energize Indiana Plan. Information had been provided on the Fund's involvement in alternative investments.
- Exhaustion of Leave. The Committee recommended a way in which "exhaustion of leave" is considered for purposes of disability benefits to bring the interpretation into alignment with the interpretation applied to 1977 Fund retirement benefits.
- The Committee had reviewed a draft of the 1977 Fund Member Handbook.
- A statewide survey of the members electing to participate in the Deferred Retirement Option Plan (DROP) had been launched.
- The next meeting would be held on February 28, 2003.

7. BENEFITS. Highlights of the Benefits Administration Committee meeting held that morning were provided:

- Payment of First Retirement Checks. The current goal was to pay the first check within a range of 45 - 60 days following receipt. The time taken was being reduced and was currently approaching the 90-day mark.
- Counseling Appointments. The goal was to provide the first counseling session within 45 days of applications. The situation had improved and counseling sessions were within the 50-60 day mark.
- State Retirement Incentive Plan (SRIP). It was noted that PERF's workload had increased as a result of the SRIP. Many people have been waiting to the last minute to decide.
- Staffing. Four new counselors had been hired and were in various stages of training. Two additional benefit counselor positions were being advertised.
- Representatives from PERF, TRF and Covansys would meet on February 17, 2003 to discuss SIRIS issues.

8. INVESTMENTS. The Investment Committee meeting had met that morning and had made recommendations for the Board's approval:

MOTION duly made and carried to allocate funds to BGI Progress (\$170 million) and Invesco Global Opportunistic (\$200 million) and to reduce allocations to Northern Trust (\$203 million), Seix (\$67 million), Western (\$50 million) and the reallocation account (\$50 million).

Proposed by: Richard Doerner
Seconded by: Nancy Turner
Votes: 4 in favor, 0 against, one abstention (absent for discussion)

MOTION duly made and carried to participate in House Mezzanine Fund as a qualified investor and approve an exception to policy by increasing PERF's maximum commitment to 25%.

Proposed by: Connie Thurman
Seconded by: Richard Doerner
Votes: 4 in favor, 0 against, 1 abstention (absent for discussion)

MOTION duly made and carried to approve Lehman Brothers' acquisition of Lincoln Capital's Fixed Income Group.

Proposed by: Connie Thurman
Seconded by: Richard Doerner
Votes: 4 in favor, 0 against, one abstention (absent for discussion).

9. ACCOUNTING/FINANCIAL/AUDIT

➤ Year-to-date Expenses.

- ❑ Headcount. PERF's headcount was 71 at the end of January. Additional personnel have been hired figures are close to the original budget level.
- ❑ Year-to-date expenses for seven months of Fiscal Year 2003 are slightly under \$15 million (This includes administrative expenses and investment fees).
- ❑ PERF is running favorable year-to-date on investment fees. New money managers have been hired, and these costs will be reflected in the new projected budget.
- ❑ No unfavorable variance was noted for administrative expenses.
- ❑ The budget process for the next fiscal year will be starting and the current fiscal year budget will be reforecast.
- ❑ The Asset Liability Study will be carried out later than projected.
- ❑ Contractual Services. These are primarily related to the IT system area (on-going cost of system operation). Programming is outsourced and costs approximately \$620,000 year-to-date. The cost of building the system is categorized as a capital project. It was noted that PERF is withholding from Convansys 15% of payment on all SIRIS Stage II functionality issues (\$669,000). There is an additional \$2.7

million in outstanding invoices. This will be paid out on satisfactory completion of work. These invoices are PERF/TRF combined. PERF's share is approximately 60%.

- ❑ Investment fees are broken out by type of asset class. During this fiscal year, the Board had approved a number of shifts. Invoices are generally received quarterly or biannually.
- ❑ Monthly cash flow. Contributions we received from employers (approximately 1,000) in the first month after the quarter end.
- ❑ A COLA adjustment for PERF was processed in January.
- ❑ Refunds. Approximately 1,000 refunds are processed each month. Refunds are given to members that have left public service and closed out their ASA balances.
- ❑ Pension Relief Fund. Revenue is received from cigarettes, alcohol, and lottery taxes and distributions are made to Indiana cities and towns for police and fire pensions.

10. NEW BUSINESS.

- a. State Retirement Incentive Program. Mr. Hartzer noted that February 28, 2003 is the cut-off date for participation in the program and recommended that a similar program should be offered to PERF employees.

MOTION duly made and carried to adopt the State Early Retirement Plan for eligible employees and that the Executive Director work with eligible PERF employees on the details for implementation of the Plan.

Proposed by: Nancy Turner
Seconded by: Richard Doermer
Votes: 5 in favor, 0 against, 0 abstentions

- b. Guaranteed Fund. Mr. Hartzer noted the requirement for a plan to review and establish the guaranteed rate and to have this complete by July 2003. It was proposed and agreed to add this item to the March Board meeting agenda. Between now and then, a methodology would be formulated, and pertinent issues would be presented to the Board for review and decision. Comparisons will be made with best practices, including TRF practices and a review would be made of past procedures.

11. ADJOURNMENT.

MOTION duly made and carried to adjourn.

Proposed by: Nancy Turner
Seconded by: Connie Thurman
Votes: 5 in favor, 0 against, 0 abstentions.

12. DATE OF NEXT MEETING. The next meeting of the PERF Board of Trustees will be held on Friday, March 14, 2003.